



Dr. Barbara Bolin, Director

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**Michigan Department of Career Development (MDCD)**  
**Office of Workforce Development (OWD)**  
**Policy Issuance: 00-47**  
**Index: IV**

**Date:** July 31, 2000

**To:** Michigan Works! Agency (MWA) Administrative Entity Directors  
MWA Grant Recipients

**Subject:** Debt Collection

**Programs**

**Affected:** All programs administered through the Michigan Department of Career Development (MDCD), Office of Workforce Development (OWD)

**References:** Common Rule for Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments, Section .52

Office of Management and Budget (OMB) Circular A-110, Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and other Non-Profit Organizations, Section .73

OMB Circular A-21, Cost Principles of Education Institutions, Section C.8.

OMB Circular A-87, Cost Principles for State, Local and Indian Tribal Governments, Section F of Attachment D and Section F.5 of Attachment E

OMB Circular A-122, Cost Principles for Non-Profit Organizations

4 CFR (Chapter II), Part 102, Standards for Administrative Collection of Claims

Debt Collection Act (Public Law 97-365)(31 USC 3711 and 3716-3718)

Workforce Investment Act (WIA), Sections 184 and 185

WIA Regulations, 20 CFR 667.510(d), 667.700, 667.705, 667.720, and 627.740

Temporary Assistance for Needy Families (TANF) Regulations, 45 CFR,

Parts 30, 261-265

29 CFR Part 20, Debt Collection Act of 1982; Final Rules

U.S. Department of Labor (USDOL) Training and Information Notice No. 12-90

**Rescissions:** Michigan Job Training Partnership Act Service Delivery Area Instruction Letter No. 86-12 and subsequent changes

**Background:** The OMB Circular A-110 and the Common Rule state that any funds paid to a grantee or recipient in excess of the amount to which the grantee or recipient is finally determined to be entitled under the terms and conditions of the award constitute a debt to the Federal Government. These OMB circulars discuss repayment within a reasonable period of time and state interest will be charged on overdue debt in accordance with the Federal Claims Collection Standards (4 CFR Chapter II.)

Section E.5. of Attachment E of OMB Circular A-87 states costs specifically identified as unallowable and charged to federal awards either directly or indirectly will be refunded (including interest chargeable). Section C.8. of OMB Circular A-21 states collection of unallowable costs and excess costs due to noncompliance with cost policies shall be refunded (including interest) to the federal government. Section 10.i. of Attachment B of OMB Circular A-122 discusses repayment of all unallowable costs plus interest.

The Standards for the Administrative Collection of Claims (4 CFR, Part 102) require aggressive action to collect all debt and describes the procedures required to collect debt.

The TANF Regulation, 45 CFR 263.11(b), states the U.S. Department of Health and Human Services (HHS) will consider a misuse of funds to include expenditures that do not reasonably accomplish the purposes of TANF, administrative systems that are not in compliance with the Common Rule, and expenditures which are not compliant with OMB Circular A-87. TANF Regulations 45 CFR 30.2 and 30.11(a) state aggressive action will be taken to collect debts, including overpayments to program beneficiaries, overpayments to contractors and grantees, audit disallowances, and excessive cash advances. The TANF Regulation, 45 CFR 30.13(a), states interest will accrue from the date the debt is established.

Section 184(c) of the WIA states “In General— Every recipient of funds under this title shall repay to the United States amounts found not to have been expended in accordance with this title.” The USDOL is authorized to impose sanctions against recipients and subrecipients for expenditures which are made in violation of the act.

The preferred repayment for debt is cash from nonfederal sources. However, Section 185(f) of the WIA and its corresponding regulation 20 CFR 667.300(c)(2) mention stand-in costs. The MDCD/OWD has developed criteria, which have been acceptable to the USDOL and HHS for substituting stand-in costs for debts involving disallowed WIA or TANF costs, respectively. The criteria are included in the guidelines section of this policy.

It is evident from the Debt Collection Act, Standards for the Administrative Collection of Claims, OMB circulars, acts, and regulations that it is necessary to adhere to clearly defined debt collection procedures which include prompt, appropriate, and aggressive debt collection action to recover misspent funds and other amounts due. Therefore, this policy will apply to all programs administered by the MDCD/OWD.

**Policy:** The MDCD/OWD has established debt collection guidelines (attached) which describe MDCD/OWD and MWA responsibilities. The MDCD/OWD guidelines include the requirement that MWAs shall establish and follow local debt collection procedures.

**Action:** MWAs shall develop local debt collection procedures in accordance with the attached MDCD/OWD guidelines.

**Inquiries:** Questions regarding this policy should be directed to the state coordinator at (517) 335-5858.

The information contained in this policy issuance will be made available in alternate format (large type, audio tape, etc.) upon special request received by this office.

**Expiration**

**Date:** Continuing

**Signed**

Vicki Enright, Director  
Office of Workforce Development

VE:BM:tlb  
Attachment  
cc: Robert T. Pendleton

**MICHIGAN DEPARTMENT OF CAREER DEVELOPMENT/OFFICE OF  
WORKFORCE DEVELOPMENT (MDCD/OWD) DEBT  
COLLECTION GUIDELINES**

A. MDCD/OWD Responsibilities

1. Grant Recipient Liability — In accordance with Section .5 of the Common Rule, Section .73 of Office of Management and Budget (OMB) Circular A-110, the MDCD/OWD is liable for collecting and repaying to the Federal Government funds paid to an entity in excess of the amount to which the entity is finally determined to be entitled under the terms and conditions of an award.
2. Methods of Payment— It will be the policy of the MDCD/OWD to negotiate methods of payment on a case-by-case basis with each Michigan Works! Agency (MWA). The MWA is liable for all disallowable costs resulting from expenditures which are not in compliance with the federal statutes and regulations. The MDCD/OWD will follow the guidance and regulations provided in the Debt Collection Act (31 USC 3701-3719), Standards for Administrative Collection of Claims (4 CFR Chapter II), Section .52(b) of the Common Rule, and Section .73(b) of OMB Circular A-110 regarding debt collection and the authority to assess interest. The repayment of disallowed costs and applicable interest must be made with nonfederal funds.
3. Written Notification — A written notification to the MWA establishing a debt will be issued by the MDCD/OWD. This notice will include:
  - a. Notification of the date the debt will be considered delinquent, and any interest charges (if appropriate);
  - b. Options available, if any, for the method of repayment.
  - c. Possible sanctions if the debt is not repaid;
  - d. Notification of appeal rights;
  - e. A statement that the final decision of the MDCD/OWD is subject to review by the appropriate federal funding source
4. Grievance Procedure — MWAs may appeal the proposed debt notification subject to procedures outlined in MDCD/OWD Policy Issuance No. 00-07 Grievance and Complaint Procedure issued February 16, 2000, and subsequent changes. Debt collection procedures will be temporarily suspended during an appeal.
5. Collection Procedures — A 30-day delinquent notice will be sent to the MWA if payment has not been received or a satisfactory alternative payment plan has not been negotiated. If the debt is still outstanding after 60 days, a determination may be made to use other methods of collection.

B. MWA Responsibilities

Written Debt Collection Procedures — Each MWA shall develop and maintain written debt collection procedures for collecting debts the MWA establishes against the MWA's contractors. The procedures shall, at a minimum, include:

1. Written notification to subrecipients of the establishment of the debt;
2. Possible sanctions if the debt is not paid;
3. Notification of appeal rights;
4. Notification of the date the debt will be considered delinquent, including interest charges if appropriate;
5. Steps to be taken to systematically collect outstanding debt (e.g., debt collection letters at specific intervals);
6. Establishment of an accounts receivable system; and
7. Standards for terminating, compromising, or litigating debts.

C. WIA-Related Waiver of Sanctions:

1. When an MWA is unable to collect a WIA-related debt in whole or in part from a contractor, it may request the MDCD/OWD to seek a waiver of sanctions from USDOL, pursuant to Section 667.720 of the WIA regulations. In making such a request, the MWA must demonstrate that it has met the following criteria:
  - a. Established and adhered to an appropriate system for the award and monitoring of contracts with subrecipients that contains acceptable standards for ensuring accountability;
  - b. Entered into a written contract with such subrecipient that established clear goals and obligations in unambiguous terms;
  - c. Acted with due diligence to monitor the implementation of the contract, including the carrying out of the appropriate monitoring activities (including audits, as applicable) at reasonable intervals; and
  - d. Taken prompt and appropriate corrective action upon becoming aware of any evidence of a violation of the act or the regulations by such subrecipient.

2. The USDOL is authorized to impose any sanction, which is consistent with Title I of the WIA and any applicable federal or state law, directly against any subrecipient or contractor who violates Title I of the WIA or WIA regulations. If the USDOL determines that there has been demonstrated compliance with the criteria included in Section C.1. a-d above, the USDOL may waive the imposition of sanctions.

An MWA must demonstrate how it has met all the criteria; i.e., documentation of award and monitoring of contracts, corrective action efforts, debt correspondence, litigation, withholding of funds, etc. The MDCD/OWD will verify such information before forwarding a request for approval of the proposed waiver to USDOL or other applicable funding source.

D. Use of Stand-In Costs for Disallowed WIA Title I and TANF Program Costs

Cash is the preferred method for repayment of disallowed costs. As a last resort, the use of “stand-in” costs to substitute for WIA Title I and TANF disallowed costs may be considered by the MDCD on a case-by-case basis. A request to use stand-in costs must be fully documented and included with the MWA’s timely response to disallowed costs. At a minimum, the following conditions must be met:

1. The stand-in costs must be allowable WIA or TANF costs which were actually incurred but not charged to the WIA or TANF program, respectively, because of funding limitations, local decision, or other applicable reason;
2. Would not have been incurred in the absence of the funded program (i.e., they are added costs and, therefore, do not violate the act or regulations);
3. If previously charged elsewhere, the prior charge must be adjusted if accepted as stand-in costs;
4. Must have been included within the scope of the audit (not necessarily tested but potentially subject to testing);
5. Shall not result in violation of mandated limitations;
6. Must have been accounted for in the auditee’s financial system as required by Section .21 of OMB Circular A-110 or .20 of the Common Rule
7. Must be adequately documented in the same manner as all other program costs;
8. Must have been included as a line item in a line item budget and reported as uncharged program costs (i.e., not required match or extra costs) and, for WIA, must be from the same WIA title as those costs which were unallowable/disallowed;

9. Cannot be an exaggeration of costs of time and service (i.e., costs must be reasonable and necessary); and
10. Must be from the same funding period (i.e., program year or fiscal year, as applicable) as the disallowed costs for which they are substituted.